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## States worry over bonds backed by federal money

By TOM BREEN 09.11.08, 12:56 PM ET

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CHARLESTON, W.VA. - The bankruptcy of the federal highway trust fund halted road work around the country and sparked fears that state governments would be on the hook for billions of dollars in bonds they had planned to pay off with money from Washington.

While Congress works on a quick injection of \$8 billion to the fund, highway planners say that's only a temporary fix and that the whole system of funding road projects is structurally flawed.

"It's just a big mess," summed up Jack Basso, chief operating officer of the American Association of State Highway and Transportation Officials.

One of the things that has states worried is a type of bond called a Grant Anticipation Revenue Vehicle, universally known as a GARVEE.

These bonds became popular at the end of the last decade because they allowed states to start highway projects without having cash on hand and usually without having to raise gas taxes or put the bond question to the voters in a referendum.

But the bonds were issued with the idea that federal highway trust funds would always be there to cover the debt - and the federal

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highway trust depends on gas tax revenues that have fallen dramatically as prices spike at the pump.

GARVEE bonds are issued by states and pledged against anticipated future federal transportation grants - in other words, states promise to pay back debt on the bonds with federal money they expect to receive.

During the past decade, the amount of money tied to GARVEE bond issues has grown from about \$1 billion to roughly \$18 billion, according to Basso. Today, 21 states and the Virgin Islands are using GARVEE bonds to finance projects, according to the Federal Highway Administration.

The federal government, though, has never guaranteed the bonds. Instead, bondholders have purchased them with the assumption that states can rely on annual grants from Washington.

"The whole promise of those bonds is the debt will be paid with federal dollars," said John Horsley, executive director of AASHTO. "When you lose the federal dollars, it puts states that have issued bonds in a terrible bind."

Last week's announcement that the trust fund was broke made some states pull back immediately from planned projects. Arkansas, Oklahoma and Arizona delayed plans to build a combined \$265 million worth of projects.

The Arkansas Highway and Transportation Department announced Monday it will postpone a \$24 million highway project in West Memphis.

The state has issued about \$575 million in GARVEE bonds, agency spokesman Randy Ort said, and its two annual payments on the bonds amount to roughly \$73.5 million a year. State officials do not relish having to find that money elsewhere in the budget.

"In Arkansas, like everywhere else, we are a cash flow agency," Ort said. "We don't sit on huge balances of cash."

Oklahoma officials delayed highway projects worth about \$83 million, and in Arizona six projects worth at least \$158 million have been put on hold.

GARVEE bonds are not the immediate spur to those decisions, which come from concerns about the federal government switching its highway payments from daily to weekly increments, and possibly reducing its share of projects from 80 percent of the cost to 70 percent.

State officials whose next GARVEE payments are months away are also counting on Congress to step in with an infusion of cash before the situation gets worse.

"It's not on the immediate horizon, so there's not a sense of panic," said Doug Nintzel, spokesman for the Department of Transportation in Arizona, where the next GARVEE payment of \$7.2 million isn't due until January.

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In [West Virginia](#), where GARVEE bonds are paying for a \$74 million project on U.S. Rte. 35, the next payment isn't due until March.

"If Congress doesn't take action, the potential is there to delay projects," state DOT spokesman Brent Walker said.

On Wednesday, the Senate approved a bailout of the fund, with the House of Representatives expected to follow suit as early as Thursday.

Even with enough cash to ride out the current storm, though, GARVEE bonds may be a leading reason why the current transportation funding system - which relies on the federal gas tax to replenish the trust fund - needs to be rethought.

"The system isn't just broke, it's broken," said Robert Puentes, a fellow at the Brookings Institution's Metropolitan Policy Program and the co-author of a 2005 study on GARVEE bonds.

As high gas prices drive down the amount of gasoline taxes collected - Americans drove 50 billion fewer miles between November 2007 and June 2008 than during the same period a year before - relying on those taxes to lard the trust fund, and on that trust fund as the revenue source for state bonds, may be untenable.

"The bank is busted and we're going to be living hand to mouth," said Joe Deneault, chairman of West Virginians for Better Transportation, which is advocating long-term solutions to road funding. "That's no way to plan highway projects."

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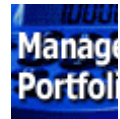
 

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